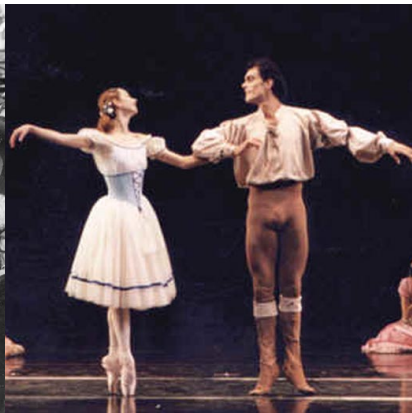


EDMONDS CENTRE FOR THE ARTS

Business Plan



Prepared for the Edmonds Public Facilities District

Prepared by Lund Consulting, Inc.

August 31, 2002

Updated October 3, 2002

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TABLE OF CONTENTS

1. INTRODUCTION
 - A. Background
 - B. Vision
 - C. Competitive Advantage
2. CAPITAL PROGRAM AND COSTS
 - A. Phase I Capital Program
 - B. Phase I Capital Costs
 - C. Phase I Capital Fund Sources
3. FUNDRAISING FEASIBILITY
 - A. Private fundraising
 - B. Federal funding
 - C. State funding
 - D. Foundations and grants
4. MANAGING THE RISK WITH THE CAPITAL BUDGET CONSTRUCTION AND FUNDRAISING
5. OPERATIONS
 - A. Recommended management partnerships
 - B. Recommended operating pro forma
 - C. Organizations with intent to use facility
6. MANAGING THE RISK OF OPERATING DEFICITS
7. MARKETING
 - A. Key Messages
 - B. Target Audiences
8. TIMETABLE
9. CONTINGENCY REQUIREMENTS
10. CAPITAL BUDGET AND EXPENSE DETAIL

1. INTRODUCTION

A. Background

In April 2001, the City of Edmonds created the Edmonds Public Facilities District (PFD) to study the potential development and viability of a regional center. The Edmonds City Council appointed the 5-member PFD board in June 2001. The board includes members with experience in real estate development, marketing, economic development, project management, and the arts.

The PFD completed a Market Demand and Feasibility Study in November, 2001 for the facility and explored potential locations. During this process, the Puget Sound Christian College (PSCC) property in downtown Edmonds was placed on the market for sale. Impending sale and probable demolition of the historic buildings focused the PFD on the importance of acquiring and redeveloping the property. The PFD completed a Business Plan in April, 2002 to detail the purchase, renovation, and operation of the PSCC site as a regional arts center. That Business Plan was updated over the summer of 2002 to include up-to-date cost estimates, fundraising feasibility, rental viability, user group interest, and operating costs.

B. Vision

The Edmonds PFD defined its vision as the creation of a high quality regional center which includes a performing arts facility, meeting rooms, and gymnasium for the local and surrounding communities. After a process of site and development alternatives evaluation, the PFD decided to purchase and renovate the buildings at the former campus of the Puget Sound Christian College. The PFD's prime objectives are to provide a performing arts facility for community and regional arts groups and presenters, to preserve a well-regarded historic structure, and to enhance the cultural life of the community and region.

The PFD intends to carry out a two-phase project. Phase one (a) is to renovate the theatre and to create on-site parking. The existing gymnasium and an existing music practice building will be retained in the development. Phase one (b) will add modern sound and lighting equipment as well as new balcony seats. Phase two is the addition of a meeting room large enough to seat 500 people in a dining configuration and a roof garden that will overlook Puget Sound and the Olympic Mountains beyond. This new meeting room wing will be located on top of a three-story parking-garage adjacent to the north wall of the theatre. Located near downtown Edmonds the Centre for the Arts will be an appealing place to attend performances and other events and to enjoy amenities of nearby restaurants, shops, and cafés, a short walk away.

C. Competitive Advantage

The City of Edmonds has an attractive downtown retail core with many restaurants and retail shops. The downtown is clean and safe for pedestrians. The Edmonds Centre for the Arts has the advantage of being located within walking distance of these shops and restaurants making it appealing for patrons of events.

The Puget Sound Christian College is the former Edmonds Junior and Senior High School property. These landmark buildings represent one of the finest examples of the Arte Moderne School of design in Washington State and are listed on the Washington Heritage Register. The school is a recognized landmark in the community and graduates of the school are actively interested in plans to preserve it as a regional arts facility. This historic ambience lends character to the Centre for the Arts and provides an institutional memory to firmly root the facility in the region.

This Centre for the Arts has an existing pool of users who intend to continue using the facility in the future. This provides revenue and anchor tenants that can help reduce operating deficits as the facility transitions to a more up-to-date facility.

Partnership opportunities exist with the City of Edmonds and the Edmonds Community College that offer benefits to the community through reduced operating costs by sharing administrative services as well as benefits of creative and engaging programming using the expertise and reputations of these organizations.

Opportunities exist to phase this project to match capital investment to available funds, including a compelling vision for a second phase. By effectively managing the risks associated with this project (as with any capital project) residents of Edmonds, South Snohomish County, North King County, and the Kitsap Peninsula will gain a performing arts facility that is designed for the region's specific interests and that will meet the community's cultural needs.

When the Edmonds Centre for the Arts opens its doors in 2005, audiences from throughout the region will experience the full force and brilliance of music, dance and theatre. Through the vision and leadership of the City of Edmonds and Edmonds PFD and Snohomish PFD Boards, as well as through the generosity of community supporters, audiences will enjoy one of the finest performance halls in the region.

2. CAPITAL PROGRAM

A. Recommended Phase I Program

The PFD retained LMN Architects to develop a design concept, conceptual cost estimate, and phasing plan to accomplish the Centre for the Arts vision. LMN's work product is available for review through the City of Edmonds in two separate volumes: "Concept Design and Budget Report" and "Appendices".

LMN concluded this project will require major renovation work to the theatre and demotion of unusable buildings on the north side of the theatre to create space for on-site parking and additional lobby space. The theatre, built in 1939, needs significant renovation in the front of house public areas, in the auditorium, and in the back of house areas as well. Both the front of house and backstage areas will be retrofitted to meet the requirements of the Americans with Disabilities Act (ADA).

The renovations will preserve the architectural integrity of the original auditorium while creating a first-class theatre with 725-750 seat capacity, improving the stage, and installing modern sound and lighting systems. The design will ensure both listening intimacy and visual appeal. New seating will be provided in the orchestra level of the theatre and to improve sight lines a more steeply raked floor will be added at the orchestra level. To improve acoustic characteristics and to provide acoustic flexibility, the sidewalls in the front part of the house will have elements added to improve sound diffusion and to incorporate acoustic draperies for use with amplified sound. Inadequate stage wing space will be remedied by demolishing the lower portion of the stage house wall and incorporating a girder to support the remaining portion. Theatrical system upgrades will be added when funding is available. Dressing rooms, a greenroom, back-of-house support areas and a loading dock will be added to make the theatre fully functional. The gymnasium will be retained and used for long-term rentals and some special events. The music buildings will be retained for rehearsal use. The classrooms will continue to serve as meeting rooms for smaller groups

On-site parking with landscaping will be added for 90 cars. Integrating cultural development strategies with economic development, the Edmonds Centre for the Arts will attract people, organizations and new businesses to the city, which will stimulate the local economy. The Centre is expected to host 110 events by its fifth year of operation, drawing about 45,000 attendees by 2010. To manage additional parking needs, the PFD will work with the city to develop a parking management plan that will use nearby existing parking lots. In addition, the PFD will work with the city to consider a residential parking zone for the benefit of nearby residents.

The PFD has already held preliminary discussions with the City of Edmonds to outline the permit process needed to accomplish this project. The PFD will apply for all necessary permits including a conditional use permit and master plan. Permits will be needed for demolition, surface parking, and other site improvements. SEPA and traffic mitigation are expected to be required.

Renovation Summary

The renovation will include: seismic retrofit, ADA retrofit; increased lobby space; new toilets; new seating and improved site lines; acoustic improvements; back of house improvements; increased wing space on stage; new HVAC system; new electrical power including power for theatrical productions; cosmetic improvements to existing meeting rooms on second floor of theatre, power and data upgrades to second floor meeting rooms; loading dock, and a new landscaped surface parking lot for 90 cars. Modern theatrical systems, equipment upgrades, new sound and light systems, and new balcony seats will be added when funds become available.

B. Phase I Capital Costs

Phase I capital costs are detailed in the August 31, 2002 Appendices to the LMN Concept design and Budget Report. Soft costs are detailed in the August 31, 2002 Capital Budget Report prepared by Kymera Industries and are appended to this report.

SUMMARY	
<u>Phase 1 (a)</u>	
Theatre renovation and site work	\$6,862,940
Acquisition	4,050,000
Hazardous materials cleanup	795,656
Soft costs	3,818,764
Total Phase 1 (a)	\$15,527,360
<u>Phase 1 (b)</u>	
Theatrical systems, lighting, sound system, balcony seating, and associated soft costs.	\$848,495* (The PFD will prioritize these expenses to fit within budget.)
TOTAL PHASE 1 (A) AND PHASE 1 (B)	\$16,375,855

C. Phase I Capital Fund Sources

The PFD retained Kymera Industries Inc. to develop a capital budget that shows sources and uses of capital funds. This report is available for review at the City of Edmonds. The report includes a summary capital budget; a projected capital budget cash flow for 2002-2005; bond proceeds and costs; and a potential ticket levy revenue stream.

A mix of public and private funds will fund the Edmonds Centre for the Arts. The PFD has secured rebated state sales tax revenues for the next 24 years, the present value of which is \$2.559 million. The City of Edmonds has pledged an additional \$2 million to the project. The PFD has obtained conditional approval from the Snohomish County PFD for an additional \$3.752 million.

The PFD anticipates selling bonds backed by the city and county PFD sales tax revenue stream. Interim financing may be used during the fall of 2002 to ensure that the most favorable bond rates are secured depending on the markets. The City of Edmonds has pledged \$1 million in cash available this fall and the balance of the \$1 million REET funds will be bonded. The property seller has offered a low interest bridge loan.

To raise the balance of the required funds, the PFD Board of Directors is proposing to launch a region-wide capital campaign to raise \$4 million in private contributions, based on the recommendation of Netzel Associates, a professional fundraising firm that conducted a fundraising feasibility study for the PFD. Funds totaling \$2.5 million are also being sought from private foundations, federal, and state government sources. Multi-year pledges will be encouraged to benefit both the capital needs as well as an on-going annual fund.

The PFD may also implement a ticket levy on performing arts events beginning in 2005 to ensure that patrons of events are also supporting the facility. These funds may be dedicated to ensure adequate cash reserves are maintained and can offset the \$500,000 operating reserve being held in the capital budget. The PFD will earn income from existing rentals of the Puget Sound Christian College; interest earnings ; and surplus real estate.

CAPITAL FUND SOURCES SUMMARY (UPDATED OCTOBER 3, 2002)	
City of Edmonds REET cash	\$1,000,000
Bond Proceeds (NPV)	
City of Edmonds REET	1,000,000
Edmonds PFD sales tax	2,558,877
Snohomish County	3,752,134
Private and corporate contributions	4,000,000
Grants and subsidies	2,500,000
Surplus property sale	1,175,000
Cash reserve interest	30,000
Total	\$16,016,011

3. FUNDRAISING FEASIBILITY

A. Private fundraising

The PFD retained Netzel Associates to conduct a fundraising feasibility study. A 12-member Study Advisory Committee was formed to approve study documents, to develop and prioritize a list of prospective interviewees and to receive the preliminary study findings. Netzel conducted 27 interviews with individuals. The study found that the Edmonds Centre for the Arts is perceived as a positive asset for the community.

Sixty-three percent (63%) of the interviewees view a fundraising goal of \$7.4 million as realistic. Due to concerns about current economic conditions, Netzel Associates recommended a private fundraising goal of \$4 million.

Immediate steps are needed to organize a leadership committee for fundraising and to secure a lead gift by March 2003. The PFD has set aside \$250,000 for the fundraising campaign -- set to begin January 2003. Long-term annual fund planning should be part of the capital campaign drive.

The feasibility study is available for review at the City of Edmonds.

B. Federal funding

The PFD has concentrated its efforts on the federal fiscal year (FY) 2003, which begins on October 1, 2002. They have been working to bring federal funds to the project since the spring with Senators Patty Murray and Maria Cantwell – Senator Cantwell lives in Edmonds so the project is of special interest to her – and with Representative Jay Inslee in whose congressional district the City of Edmonds is located. The PFD is also involving local congressional state elected officials in these efforts.

The PFD has requested \$1.5 million, or about ten percent of the total project cost, from the federal government. This project is positioned as a unique opportunity to renovate an historical building while simultaneously creating a first-class theatre in a region of the state in need of such a facility. The PFD continuously stresses the financial partnership taking shape for the project, emphasizing that the federal government's modest contribution will assist in obtaining funding from the private sector.

The PFD sponsored a tour of the facility on August 14, 2002 for Congressional and state legislators and staff to help build political support for the project. The PFD will also inject project funding in the fall campaigns to further build community and political support. If the PFD is not successful for FY 03, then they will have built a strong political base for federal funding in FY 04. The PFD capital budget does not project federal funding until 2004. The projected amount is half of the requested amount.

C. State funding

State funding efforts have been geared toward an appropriation in the 2003-05 state biennial budget that will be written during the 2003 state legislative session that begins in January 2003. The 03-05 state fiscal biennium begins July 1, 2003 and continues until June 30, 2005.

The PFD has organized support from the 21st and 32nd state legislative districts, both of which now represent Edmonds following redistricting. All six legislators are supportive of state funding for the project and five recently signed a letter to Governor Locke requesting a \$1 million appropriation in the Governor's proposed 03-05 capital budget due for release in December of this year.

Two 32nd district legislators are in specific positions to advocate for state capital funding—Senator Darlene Fairley, who is Chair of the Senate Capital Budget Committee and Representative Maralyn Chase who is a member of the House Capital Budget Committee.

As in its federal advocacy, the PFD is stressing the existing financial partnership for the Edmonds PFD, and the fact that a \$1 million state appropriation represents just 6.5 % of the total cost of the project. The PFD will inject project funding into the fall campaigns to further build political and community support for state funding. If the PFD is unsuccessful in the 03-05 state budget, they will work to insert money into the supplemental capital budget during the 04 legislative session – a supplemental budget at the state level deals with emergent or opportunistic issues – or subsequently in the next biennial budget cycle. The PFD capital budget does not project state funding until 2004. The projected budget amount for state funding is 75% of the requested amount.

D. Foundations and grants

According to the Foundation Center's Arts Funding Update 2002, throughout the United States there are nearly 56,600 grant making foundations which provide an estimated \$3.69 billion for arts, culture, media, and the humanities. The performing arts received nearly one-third (32%) of arts grant dollars in 2000. Arts organizations on the West Coast benefited from twenty percent (20%) of overall support, even though western funders provided only one-sixth of all arts funding. Capital funds accounted for over thirty percent (30%) of arts funding. Based on this historical track record, more than \$70 million in performing arts capital grant funds are available to West Coast projects that apply for funding.

The Edmonds PFD is seeking \$1,000,000 in foundation support between 2002- 2005.

POTENTIAL FOUNDATION AND GRANT SOURCES	
Allen Foundation	Robert McCormick Tribune Foundation
Ford Foundation	Donald W. Reynolds Foundation
Andrew Mellon Foundation	Rockefeller Foundation
Lilly Endowment	Lila Wallace Readers Digest Funds
John S. and James L. Knight Foundation	Brown Foundation
Doris Duke Charitable Trusts	David and Lucille Packard Foundation
Kresge Foundation	Bullitt Foundation
Freedom Foundation	National Trust for Historic Preservation
Hall Family Foundation	Northwest Foundations

4. MANAGING THE RISK WITH THE CAPITAL BUDGET CONSTRUCTION AND FUNDRAISING

LMN Architects recommends a multi-phased construction program to achieve a high quality Arts Centre and Community Gathering Place. Phase I would include demolition of certain structures, renovation of the existing theatre, surface parking, and preservation of the music buildings and gymnasium. Phase II would include structured parking and development of a community gathering place and meeting rooms with a roof top terrace overlooking Puget Sound.

Experienced cost estimators developed cost estimates for these conceptual plans. Phase I construction costs are estimated at \$6.9 - \$7.7 million. The higher figure includes the installation of modern theatrical sound and light systems as well as new balcony seats. Combined with all capital budget costs, including a \$4 million purchase price, predevelopment, architectural and engineering, permitting, demolition, and other soft costs such as fundraising, the total capital budget is currently estimated at \$15.5 – \$16.4 million. (The higher figure includes the installation of modern theatrical sound and light systems as well as new balcony seats.)

The issue has been raised about plans to successfully build a facility if not all private funds are raised. In addition the City's guarantee of bonds for this project must be backed by a tangible, usable facility.

CAPITAL BUDGET RISK ASSESSMENT

<p><u>BEST CASE SCENARIO</u></p> <p>Construction costs are lower than estimated. Fundraising exceeds expectations.</p> <p><u>PROBABILITY:</u></p> <p>These two factors are unlikely to occur simultaneously. Construction bids may be lower if the market stays tight and contractors are in competition. Fundraising may exceed projections when economy improves. In addition, fundraising may improve when Woodway, the Highlands, Kitsap County, and Mountlake Terrace areas are included.</p>	<p><u>WORST CASE SCENARIO</u></p> <p>Fundraising fails and/or construction costs exceed estimates.</p> <p><u>PROBABILITY:</u></p> <p>These two factors are unlikely to occur simultaneously. The PFD board and a leadership team are committed to launching a successful fundraising campaign. LMN architects have a proven track record in cost estimating.</p>
<p><u>WORKABLE SCENARIO</u></p> <p>Fundraising and cost estimates are within 15% of estimates.</p> <p><u>PROBABILITY:</u></p> <p>This is highly likely given the track records of the fundraising consultant and architectural firms who prepared the estimates.</p>	<p><u>MANAGING RISK</u></p> <p>Estimates assume prevailing union wages. Estimates assume 15% estimating error. Estimates assume reserve for hazardous materials. Project can be phased to available funds to match city guarantee. Use qualified professionals for management of overall project as well as specifically for construction management, fundraising campaign, and A/E. Manage bond debt payments and cash flow. Obtain interest free loans and/or dedicated revenues. Reduce capital improvements to theatre. Seek additional up-front capital.</p>

5. OPERATIONS

A. Recommended Management Partnerships

The PFD retained Kymera Industries Inc. to recommend a cost-effective management structure to operate the Edmonds Centre for the Arts in an effort to minimize operating deficits. Kymera Industries analysis of operating partnerships is available through the City of Edmonds in a report titled: "Edmonds Regional Performing Arts Centre: Five Year Operating Pro Forma, August 2002".

Kymera Industries Inc. recommended achieving operational economies through partnerships with existing entities such as the City of Edmonds and/or Edmonds Community College.

Operational economies are achieved through shared services. Rolling in city services such as legal, payroll, purchasing, grounds, etc. project a very favorable operating model. Additional economies may be achieved by interlocal agreements of all parties.

The recommended operating pro forma is prepared using an operational scenario that assumes a minimal roll-in of existing city services, thereby gaining operational economies. This pro forma is presented as Exhibit B and Exhibit B Notes to the Kymera report.

B. Recommended Operating Pro forma

The PFD retained Zia Gipson, a marketing consultant, to survey and interview users of the Edmonds Centre for the Arts to estimate future use. Kymera Industries Inc. used that data and existing rental information from the Puget Sound Christian College to generate an operating pro forma. This analysis is available through the City of Edmonds in a report titled: "Edmonds Regional Performing Arts Centre: Five Year Operating Pro Forma, August 2002".

The recommended operating pro forma assumes a "four-wall" rental space operational model and allows for no in-house presenting or producing. The current owners of the Puget Sound Christian College are operating the facility as a performing arts and meeting venue. The site already has bookings with a number of organizations. The PFD surveyed and obtained letters of interest from existing and potential users of the facility. The audience size for most users is under 900 with 600 the average seating requirement.

This information provides the advantage of using historical costs associated with the building, as well as existing user groups' operational revenue, to baseline year one. These provide case sensitivity comparison. First year revenues are based on existing user performance and event days multiplied by the more conservative auditorium lease rate of

\$500 per 6-hour block. The current rates average \$600, but these were determined to be comparatively higher than other venues in the region and could be prohibitive to increasing the user base. Use is scaled up in year five; performances are calculated on existing users plus users who expressed high interest with their reported number of performance days. Typical inventory for performances in a venue is 160-180, and rather than take existing users and increasing performances by an arbitrary percentage, the pro forma assumes existing use, ramped up to a total of 145 performances in year five. This is the number reported by interested users for the 2002 season.

Uniquely, this building has the ability to house anchor tenants, whose usage does not interfere with performing arts gross inventory of days, allowing full use of the space for performances and events. This situation helps off set the existing low number of users. Operational deficits are the standard for performing arts venues, and while this facility currently falls among the "standard", there is a much smaller deficit than is typical.

Primarily one anchor tenant will use the gymnasium, as rents by far exceed any available rental fees from local and regional athletic users. Possibilities exist for future use as exhibit space.

Meetings and events are based on the existing schedule in the first year and increase with the incorporation of usable business meeting space and breakout rooms.

Paid parking will consist of 85 spaces for calculations in Phase I, through on-site surface parking. While it is atypical for patrons to pay for parking, the lack of this basic amenity in the City of Edmonds makes the possibility of parking as a profit center feasible. Actual surface parking to be added totals 90 spaces.

Great care has been taken to cost out operations. Salaries and benefits are competitive, Administrative and production costs are based on like-facilities budgeted figures and building operations are very specific to the existing building and the region in which it sits.

This project allows the creation of a cost effective, user-friendly facility with beauty, history, warmth and sense of community. Combined with experienced management and marketing, this pro forma should conservatively allow for very low deficits or breakeven in 5-8 years.

The PFD will manage the Centre as a rental facility. The cost of operations is projected to be about \$503,000 by the fifth year of operation, in 2010. Revenues from rental of the facility, box office, contributed income, and parking fees will cover expenses.

C. Organizations with Intent to Use Facility

The pro forma was based on responses from surveys sent by the PFD to potential users during the spring and summer of 2002. Surveys and letters of intent are available for review with the City of Edmonds.

- 1.) The following organizations have existing agreements to use the facility and have expressed interest in continued use.

ORGANIZATION	PROJECTED PERFORMANCES
Act 1 Dance	3
Cascade Symphony	4
Jazz Connections/Rotary	10
Northwest Savoyards	4 productions with 6 shows each
Olympic Ballet	16
Community Christian Fellowship	Weekly services Office use
Europe Through the Back Door	3
Sanderson Group	4
Seattle Gymnastics	2
World Wide Dreambuilders	16

- 2.) The following organizations have indicated interest in using the facility after renovation is completed.

ORGANIZATION	PROJECTED PERFORMANCES
<u>SCHOOLS & SCHOOL DISTRICTS</u>	
Edmonds Community College (Supplemented with further discussions over summer of 2002)	6
Edmonds School District Music and Drama	10
Mountlake Terrace High School Music and Drama	10
Northshore School District Music	10
King Snohomish County Music Teachers Association	13 + competitions
<u>ARTS ORGANIZATIONS</u>	
Storybook Theatre of Kirkland	15
Choir of the Sound	10
City of Edmonds Arts Commission	3
Performances and meeting	

ORGANIZATION	PROJECTED PERFORMANCES
Cascade Youth Symphony	4
Seattle Youth Symphony	Expansion of youth orchestras with N. King County/ S. Snohomish County
Village Theatre	Spill-over from their Everett facility
Seattle Opera	Young Artist Competition
Seattle Children's Theatre	Future touring
Pacific Northwest Ballet	Future educational
EarShot Jazz	Future educational
Seattle Men's Chorus	Future ensemble
Arts Festival of Edmonds	3
BUSINESS USERS	
Barclay Shelton Dance	4
Linda Hensch Seminars	8

3.) The following users have expressed interest in booking the gymnasium.

ORGANIZATION	PROJECTED PERFORMANCES
Region II Rhythms	3
Basketball teams	9 potential teams/leagues
Gymnastics (north gym use – different building)	

4) Pro Forma operating revenue assumptions:

- a. Performance revenues in the recommended pro forma are based on current users, expected to continue using the facility, in year one (63) at \$500.00 rental fee for 6 hours with each additional hour at \$75.00. Year two is based on 72 performances at \$550.00/\$75.00. Year three on 83 performances at \$600.00/\$75.00. Year four – 96 performances at \$600.00/\$75.00. Year five – 110 performances at \$625.00/\$75.00 represents current performances plus performance projections from other arts groups expressing viable interest in the facility.
- b. The revenue from onstage rehearsal rentals reflects a conservative usage beginning with a baseline of 80 rehearsal units in year one. This increases to 140 units in year five, at a rate of \$62.50 per hour with a four-hour minimum and increasing rate of 6.25 per hour in each subsequent year.
- c. Rehearsal Room/per room is \$30.00 per hour and based on 50 rehearsal units and progressing at an increase of 20% per year in subsequent years.
- d. Events are non-performing arts, utilizing either auditorium and or all meeting rooms (based on currently booked, year 1 and adding events which have expressed strong interest)

- e. Gymnasium rental is based on 9 performance/competition days at \$300 per 4-hour block with the exception of an anchor tenant with priority use of the gym.
- f. Recurring rents- Auditorium is based on existing Community Christian Fellowship 25 Yr. Lease at \$5000 per month with a 3% annual CPI.
- g. Recurring rents – gymnasium is based on existing contract with Seattle Gymnastics moving to South gym full time with 9-day exception.
- h. Meeting room rentals is existing 4750 square feet of classroom/meeting space at \$0.07 per sq.ft.5 times per year, progressing to 20 in year five.
- i. Edmonds Community College programming is based on existing performance information and usage estimated by the college in this facility.

5) Pro forma expense assumptions:

- a. Billable labor rates are:

Year one – Technical Director \$21.00 per hour, 2 student technician \$8.00/hr. house manager \$8.00/hr., custodial \$17.00/hr.

Year two is based on same rates.

Year three – Technical Director \$22.00/hr., 2 student technician \$9.00/hr., house manager \$9.00/hr., custodial \$18.00/hr.

Year four – same rates.

Year five – Technical Director \$23.00/hr., 2 student technician \$10.00/hr., house manager \$10.00/hr., custodial \$19.00/hr.

- b. Minimum labor calls are:

Technical Director – 6 hours for performance.

Student technician – 6 hrs. for performance and 5 hrs. for rehearsal.

Custodial – 6 hrs. for performance and 2 hrs. for rehearsal.

- c. Box office fees in year one are based on \$.75 per ticket times attendees listed in Factors, Exhibit A, page 4, Edmonds Community College fees are not included as they will handle all ticket sales.
- d. PFD and City tax levy is based on 5 % each of average ticket price of \$12
- e. Parking/Performance is based on Performance rental night's times attendance percentage divided by 2.8 to account for average persons per car up to 85 spaces.
- f. Parking/Other is based on an 85 space parking at \$3.00 per day until 5pm at 10% capacity.
- g. Food and Beverage is based on Meeting room rentals x 150-person capacity x Average lunch multiplier of \$12 x typical 10% facility override.

6.) Pro forma assumptions about shared services

- a. Operational Labor includes 1 Managing Director at \$60,000 per year. 1 Technical Director at \$35,000 per year. 1.5 full time Custodian at \$35,000 per year, decreased due to grounds being rolled into Parks operations. Office manager at \$8.00 per hour FTE for 48 weeks per year, and a House/Box-office manager FTE at \$24,000 per year.
- b. Wage increases are based on 2% per year for FTE's after first two years , state minimum of \$6.90 per hr. for casual employees, increasing to \$7.25/hr. in year three. Benefits for FTE's are calculated at 30% and part time benefits at 15%.
- c. Administrative costs are typical day to day requirements and are averages of comparable performing arts center budget line items. Telephone and Internet cost reduced because of existing city system in close proximity.
- d. Marketing budget is set at 1% of total operating revenue.
- e. Payroll processing is rolled into city accounting department.
- f. Insurance would be city self insured at a pass through of \$10,000.
- g. Security is based on current alarm system monitoring cost of facility at present.
- h. Legal/Auditing would be rolled into existing City infrastructure at a \$6000 per year.
- i. Production Expenses are derived from comps at other performing arts centers and capital upgrades is industry average of 4% of rent totals.
- j. Building Operations and services cost is based on current actual costs, with the exception of utilities. Utility cost is based on Snohomish County PUD rates per square foot in a comparable building. A 9% per year increase is factored in to allow for PUD's poor management contingency. (NOTE: As a comparison, Meydenbauer Center utility cost is \$1.20 per square foot for the year 2001). The garbage disposal is reduced in this model. Parks indicated a \$100 per month fee currently utilized in their operations.
- k. Regional multipliers are average costs in the region of operations.

6. MANAGING THE RISK OF OPERATING DEFICITS

Performing arts facilities do not typically break-even. Most performing arts facilities are non-profit organizations that rely on earned income as well as contributed income to cover operating costs. Sharing services between organizations is one way to reduce operating expenses. The pro forma for the Edmonds Arts Centre assumes conservative revenue estimates based on actual current users of the facility. The pro forma shows reduced expenses through shared services with the City of Edmonds, where the city absorbs no out of pocket costs but provides an umbrella for the PFD for certain administrative costs. The capital budget includes a cash reserve to cover the anticipated operating deficits. An annual fund and contributed income drives would further reduce risk. The PFD may recommend implementation of a ticket levy to theatre events to create a revenue stream that can be dedicated to maintaining healthy cash reserves.

Kymera Industries conducted a sensitivity analysis on the pro forma and found \$500,000 to be the mid-point of an operating deficit under the model with shared services with the City. If the Edmonds Community College also partners with the PFD, operating deficits would be further reduced. The PFD has set aside \$500,000 in the capital budget from the initial bond proceeds. Once the facility is operational, good management, an annual fund drive, and dedicated revenue from an admissions tax should further reduce operating deficits and provide a cushion.

OPERATING DEFICIT RISK ASSESSMENT

<p><u>BEST CASE SCENARIO</u></p> <p>Performance bookings would increase at a rate of 20% per year above current users.</p> <p>Estimated annual operating deficit:</p> <p>Year 1: (\$122,054)</p> <p>Year 2: (\$92,391)</p> <p>Year 3: (\$54,599)</p> <p>Year 4: (19,009)</p> <p>Year 5: 36,583</p>	<p><u>WORST CASE SCENARIO</u></p> <p>Performance bookings would decrease at a rate of 20% per year below current users.</p> <p>Estimated annual operating deficit:</p> <p>Year 1: (215,107)</p> <p>Year 2: (193,345)</p> <p>Year 3: (168,663)</p> <p>Year 4: (144,844)</p> <p>Year 5: (84,366)</p>
<p><u>WORKABLE CASE</u></p> <p>Performance bookings would increase at a rate of 10% per year above current users.</p> <p>Estimated annual operating deficit:</p> <p>Year 1: (\$128,365)</p> <p>Year 2: (\$103,467)</p> <p>Year 3: (\$78,105)</p> <p>Year 4: (\$56,332)</p> <p>Year 5: (\$15,444)</p>	<p><u>MANAGING RISK</u></p> <p>Cash reserve is maintained to cover operating deficit each year.</p> <p>Partnership agreements are negotiated to reduce operating deficit.</p> <p>City provides shared services at no cost to city.</p> <p>Non-profit foundation is formed for fundraising, including capital campaign and annual fund.</p> <p>Membership and contributed income is solicited to support the facility.</p> <p>High quality staff is engaged to market facility to audiences, performers, and funders.</p> <p>Additional partners are sought to share risk and to program the facility.</p>

7. MARKETING

The PFD will begin public relations and marketing activities immediately. A proper strategy and key messages are essential. The PFD has set aside \$120,000 to contract for effective marketing and public relations services. These costs are within the soft costs of the capital budget. That expenditure begins with \$20,000 in 2002, as soon as the PFD receives notice to proceed. In addition, the PFD has set aside \$250,000 for the fundraising campaign -- set to begin January 2003. These amounts total \$370,00.

A. Key Messages for Positioning the Edmonds Centre for the Arts

The key messages for the Edmonds Arts Centre will position the facility as a unique regional cultural resource in south Snohomish/north metro Puget Sound region. Specific key messages will be developed with marketing professionals during the fall of 2002. Some preliminary messages may include:

Edmonds Centre for the Arts will be a Unique Gathering Place for the lively arts with a quality theatre, theatrical support services, as well as parking.

There is a lack of performing arts facilities and regional gathering places in south Snohomish County. The Edmonds Arts Centre offers a once-in-a-lifetime opportunity to support regional arts organizations, to help them grow as well as to build audiences for the professional performing arts.

Edmonds Centre for the Arts will be a first class facility in an appealing waterfront town.

When completed this building will be the only facility of its type in the south Snohomish/north Seattle metro area. This facility can provide additional multi function rooms in the same building and an unusual 750-seat theatre. The building's historic architecture and attractive renovations add value to the character and sense of place in downtown Edmonds. A campus atmosphere will create an appealing destination of open space, proximity to Puget Sound, and a vibrant small town atmosphere.

Edmonds Centre for the Arts will be a destination with easy access to good shops and restaurants.

The theatre offers an opportunity for a 'night out on the town'. The theatre's proximity to walk-to amenities in downtown Edmonds (restaurants and shops) provides an attractive "walk to dinner and the theatre" setting adding to the economic vitality of the region.

B. Target Audiences

GOALS	AUDIENCE
<p>Raise general 'top of mind awareness' of the facility and the plan for renovation and use with potential audiences</p> <p>To build future audiences</p> <p>To support public funding allocations</p> <p>To build a constituency for grant and foundation support</p>	General Public
<p>Raise awareness of project's solid plan and management and leadership and demonstrate the need for the project.</p> <p>To support private and public fund raising campaigns.</p>	Donor Community
<p>Raise awareness of project and its unique physical features and assets.</p> <p>To secure bookings.</p>	User groups (potential tenants), including arts organizations, community organizations, the business sector, etc.

8. TIMETABLE

Fall 2002: Hire transition consulting team; obtain Snohomish County PFD funds; obtain title; begin public relations and marketing activities; negotiate partnership agreements; sell bonds; solicit and retain A/E; begin conditional use process; solicit fundraiser; retain property manager; define construction management approach.

Winter 2003: A/E work; obtain master plan/conditional use permit; retain fundraiser; organize campaign committee; create non-profit foundation or partnership; continue marketing and communication activities; continue property management of facility, begin surplus property sale.

Spring 2003: A/E work; continue permit process; prepare construction documents; obtain lead gift; continue marketing and communications activities; continue property management of facility.

Summer 2003: Solicit construction bids; continue permit process; continue fundraising; continue marketing and communications activities; continue property management of facility; recruit Executive Director; plan opening season bookings.

Fall 2003: Pre-construction permits; continue fundraising; continue marketing and communications activities; continue property management of facility; begin demolition by December 2003; hire Executive Director; plan opening season bookings; complete surplus property sale.

Winter 2004: Construction; continue fundraising; continue marketing and communications activities; continue property management of facility; Executive Director begins; plan opening season bookings and events.

Spring 2004: Construction; continue fundraising; continue marketing and communications activities; continue property management of facility; plan opening season bookings and events.

Summer 2004: Construction; continue fundraising; continue marketing and communications activities; continue property management of facility; plan opening season bookings and opening events.

Fall 2004: Construction; continue fundraising; continue marketing and communications activities; continue property management of facility; plan opening season bookings and opening events; soft opening of facility in December to book holiday revenue.

Winter 2005: Grand opening of facility.

9. CONTINGENCY REQUIREMENTS BY SNOHOMISH COUNTY PFD AND CITY OF EDMONDS

The contingency requirements set by the Snohomish County PFD and Edmonds City Council are listed below. In italics print is listed the reference to the chapter of this report or the supplemental study that responds to each requirement.

- Contingency Task 1: Provide written confirmation from the Edmonds PFD that the project is defined as the creation of a regional performing arts center that will renovate the auditorium into a modern theatre for the performing arts, and gymnasium and classrooms into a special events and small meeting facility.

Submitted to Snohomish County PFD June 15, 2002.

- Contingency Task 2: Notification from Snohomish County that they approve the contingent viability approach to the Edmonds project.

Received from Snohomish County June 2002.

- Contingency Task 3: Complete Business Plan

Completed market potential and feasibility study that projects probable use and revenues generated from various users.

Kymera Pro forma and Chapter 5 August 31, 2002 Business Plan.

Completed capital campaign feasibility study for raising auditorium renovation funds.

Netzel Associates Feasibility Study and Chapter 3 August 31, 2002 Business Plan.

Estimated schedule of events with and without auditorium renovation improvements not presently included.

Kymera Pro forma and Chapter 5 August 31, 2002 Business Plan.

Sensitivity analysis showing financial impacts of actual events above and below projections.

Chapter 6 August 31, 2002 Business Plan.

Letters of intent from performing groups and others discussing their potential use of the facility. For 'new' users, indicate whether the use is a switch from an existing venue, or a 'new' performance.

Letters of intent and surveys on file with City of Edmonds.

Plans for additional improvements, how they will be funded, and what markets will be reached.

Letters of intent and surveys on file with City of Edmonds. LMN Concept Design.

The city's zoning code provides for the preparation of traffic impact analysis and mitigation with public hearings and input prior to the issuance of any development permit.

Chapter 2 August 31, 2002 Business Plan.

Completed marketing plans for generating new business for the facility.

Chapter 7 August 31, 2002 Business Plan.

- Contingency Task 4: Complete Financial/Funding Plans that include the following elements.

Provide more detailed project cost and revenues reflective of the proposed use of the facility.

Kymera pro forma and capital budget report. Chapters 2 and 5 August 31, 2002 Business Plan.

Include ancillary grants or fundraising used for facility improvements.

Chapter 3 August 31, 2002 Business Plan.

Discuss interim and long term financing plans.

Kymera capital budget report and Chapter 2 August 31, 2002 Business Plan.

Discuss sensitivity analysis.

Kymera pro forma and Chapters 4 and 6 August 31, 2002 Business Plan.

- Contingency Task 5: Interlocal Agreements

Execution of an interlocal agreement between the Edmonds PFD, City of Edmonds, Snohomish County, and Snohomish County PFD that formalizes roles, responsibilities, and support for the project among public equity partners.

Under development by PFD Attorney.

- Contingency Task 6: Purchase and Sale Agreement

Provide proof of title or the non-contingent right to acquire the subject portion of Puget Sound Christian College, The September 11, 2002 date is the closing date contained in the draft purchase and sale agreement received by the County on April 26, 2002.

In escrow at the time of report preparation (October 3, 2002).

PROJECT FACT SHEET

Location	410 – 4th Avenue, Edmonds, Washington
Architects	LMN Architects Knudson Ward, theatre consultants
Project Cost	\$15.5—\$16.4 million (The higher figure includes the installation of modern theatrical sound and light systems as well as new balcony seats.)
Project Timeframe	2002 - 2005
Seating Capacity	750+ seats
Gymnasium Size	athletic events 400-500 people
Classrooms	up to 150 people
Site Description	The Edmonds Centre for the Arts will be located in downtown Edmonds on a campus within walking distance of downtown shopping and restaurants. Parking will be provided on site.
Owner	The Edmonds Public Facilities District
For more information	The Edmonds Public Facilities District 121 5th Avenue North Edmonds, WA 98020 425-775-7724

**Capital Budget Summary - EPFD
2002-2005**

Capital Resources	<u>Sub-totals</u>	<u>Total Amount</u>	Allocation Years			
			<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
City of Edmonds REET cash		\$ 1,000,000	\$ 1,000,000			
Bond Proceeds						
Edmonds REET bonded	\$ 1,000,000					
Edmonds PFD @ NPV*	\$ 2,558,877					
Snohomish County PFD @ NPV**	\$ 3,752,134					
Total Bond Proceeds	\$ 7,311,011	\$ 7,311,011				
Private and Corporate Contributions	\$ 4,000,000			\$ 250,000	\$ 3,700,000	\$ 50,000
Grants and Subsidies	\$ 2,500,000				\$ 1,875,000	\$ 625,000
Library Sale	\$ 645,000			\$ 645,000		
Anchor House Sale	\$ 530,000			\$ 530,000		
Cash Reserve Interest	\$ 30,000			\$ 10,000	\$ 10,000	\$ 10,000
Additional Sno Funds requested	\$ -					
Available Resources	\$ 16,016,011		\$ 8,311,011	\$ 1,435,000	\$ 5,585,000	\$ 685,000

Capital Expense

			<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Building Acquisition	\$ 4,050,000	\$ 4,050,000				
Hazardous Materials costs	\$ 795,656	\$ 400,000	\$ 395,656			
Construction Costs less lights/sound/balcony seats	\$ 6,862,940		\$ 2,500,000	\$ 4,252,940	\$ 110,000	
Associated Soft Costs less lights/sound/balcony seats	\$ 3,818,764	\$ 604,250	\$ 1,167,642	\$ 1,443,706	\$ 603,167	
Project Expenses	\$ 15,527,360		\$ 5,054,250	\$ 4,063,298	\$ 5,696,646	\$ 713,167
Resource Carry Forward		\$ 3,256,761	\$ 628,463	\$ 516,817	\$ 488,650	
Shortfall/Surplus	\$ 488,650					

Capital Expense/ Resource Re-allocation Sources

	<u>Amount</u>	<u>Special Equipment</u>	
Theatre fixturesound//lighting/seating reduction taken	\$ 635,060	orchestra pit cover	25,000
Reduction of associated soft costs 32% taken	\$ 213,435	performing sound system	125,000
Subtotal	\$ 848,495	stage draperies	35,000
Other Possible Sources of funds		new rigging system	150,000
Additional Funds from Sno PFD		theater dimming equipment	110,000
Ticket levies directly servicing debt (NPV dollars)	\$ 873,688	theater wiring devices equip.	20,000
Operating reserve return based on Partnership to Guarantee Operations	\$ 500,000	stage lighting fixtures	90,000
Other possible increases in usable revenue are:		balcony seats	80,060
Lower than expected purchase and cleanup price	N/A	Subtotal	635,060
Lower bond coupon rate	N/A	soft costs 34%	213,435
Higher proceeds from sale of Anchor House and/or Library properties	N/A	Total Special Equipment	848,495
Higher than expected proceeds from bond revenue sources	N/A		

Debt Service Summary	
Average Annual Debt Service	\$ 438,848
Debt service with city \$1 million	\$ 474,593

Bond Proceed Assumptions

*Edmonds based on 9/26 Peggy Hetzler e-memo to PFD board

**Snohomish based on 9/27 meeting

Hazardous Costs Assumptions

Library	\$72,078
Anchor House	\$35,876
Music	\$23,310
North Gym	\$141,746
Main Building	\$451,013
less savings on rehab	-\$145,000
Subtotal	\$579,022
plus design/manage	\$86,853
plus contingency	\$99,881
plus oil tank	\$29,900
Hazardous Materials Total	\$795,656

Expense Budget - Edmonds PFD - 2002 through 2005

PFD Capital Operating, Soft Costs and Construction Through Construction Completion

PFD Expenses/Soft Costs

	2002	2003	2004	2005
Potential Contracts with City of Edmonds*	\$ 6,000	\$ 18,000	\$ 18,000	
*Administrative Assistant Compensation		\$	\$ 60,000	
*Executive Director (EPAC)	\$ 20,000	\$ 30,000	\$ 15,000	
*Accounting Services/Audit	\$ 2,250	\$ 9,000	\$ 9,000	
*Property Manager	\$ 28,250	\$ 57,000	\$ 102,000	
Subtotal				\$ 25,000
PFD Annual Maintenance		\$ 29,250		
Property Sale Commissions		\$ 20,826		
Property Sale Tax	\$ 500,000			
Operations Contingency	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
FFE Replacement Reserve	\$ -	\$ 150,000	\$ 100,000	
Fundraising		\$ 25,000	\$ 50,000	
Marketing	\$ 10,000	\$ 35,000		
P/R	\$ 30,000	\$ 60,000	\$ 50,000	
Project Management	\$ 20,000	\$ 25,000		
Partnership negotiations/booking		\$ 60,000	\$ 50,000	
Construction/ Oversight	\$ 15,000	\$ 15,000	\$ 15,000	
Bond/Legal/Other	\$ 146,297			
Debt Issuance				

Total	\$ 604,250	\$ 478,076	\$ 368,000	\$ 26,000	\$ 1,476,326
Construction Project/Soft Costs	2002	2003	2004	2005	fees to gov't.

Fee A		\$ 25,000			\$ 25,000
Fee B			\$ 35,000		\$ 35,000
Fee C				\$ 10,000	\$ 10,000
Permit A		\$ 25,000			\$ 25,000
Permit B			\$ 20,000		\$ 20,000
Permit C				\$ 10,000	\$ 10,000
Permit D					\$ -
Other					
Heat Fuel Cleanup w/ contingency					
Construction Tax					\$ 610,802
A/E					\$ 15,400
Owners Contingency		\$ 350,000	\$ 595,412	\$ 11,000	\$ 11,000
Less reduction of lighting/sound/seats		\$ 289,566	\$ 425,294	\$ (80,035)	\$ (80,035)
Total	\$ -	\$ 689,566	\$ 1,075,706	\$ 577,167	\$ 2,342,438

Construction Costs

	2002	2003	2004	2005	
Property Acquisition	\$ 4,050,000				
Hazardous Materials	\$ 400,000	\$ 395,656			
Theatre Renovation		\$ 2,500,000	\$ 4,252,940	\$ 110,000	
Total	\$ 4,450,000	\$ 2,895,656	\$ 4,252,940	\$ 110,000	\$ 11,708,596

Annual Project Total	\$ 5,054,250	\$ 4,063,298	\$ 5,696,646	\$ 713,167	\$ 15,527,360
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Summary

PFD Expenses/Soft Costs	\$ 1,476,326
Construction Project/Soft Costs	\$ 2,342,438
Subtotal soft costs	\$ 3,818,764
Acquisition/Construction Costs	\$ 11,708,596
Project Total	\$ 15,527,360

The significant beauty of the Edmonds Arts Centre site was captured in a speech given in 1909 at the corner stone laying celebration for constructing the original buildings on this site. The speaker said:

“At the close of any clear day, when the sun passes from sight beyond the Olympic Range, there is a blending of golden and crystal beauty no artist has yet been able to reproduce, no hand of man can ever obliterate, and it is free to us from this spot for all time.”